

## Message Text

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ACTION EA-14

INFO OCT-01 ADP-00 CIAE-00 DODE-00 PM-07 H-02 INR-10 L-03

NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-15 USIA-12

AID-20 IGA-02 COME-00 EB-11 FRB-02 TRSE-00 XMB-07

OPIC-12 CIEP-02 OMB-01 AGR-20 RSR-01 /157 W

----- 100103

P R 140940 Z JUN 73

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC PRIORITY 1675

INFO SECDEF WASHDC

CINCPAC

C O N F I D E N T I A L PHNOM PENH 5896

FOR STATE/ AID

E. O. 11652: GDS

TAGS: EFIN, CB

SUBJECT: PROPOSED PLAN FOR INCREASING RICE PRICES AND SALARIES,  
AND ELIMINATING SUBSIDIES

1. FOLLOWING TWO DAYS OF MEETINGS WE HAVE REACHED  
AGREEMENT WITH THE GKR ECONOMIC MINISTERS AND THE  
IMF ON A PACKAGE OF ECONOMIC MEASURES TO PROPOSE  
TO THE GOVERNMENT FOR IMMEDIATE ACTION. THE AGREE-  
MENT INVOLVES MINISTERS KEO MONGKRY ( ECONOMY AND  
FINANCE), SAPHON SARASY ( COMMERCE), KHY TAING LIM  
( PLAN), AND CENTRAL BANGK GOVERNOR SOK CHHONG;  
ENDERS, SOHLIN AND DAVIS REPRESENTED OUR SIDE.

2. ON THE EXPENDITURE SIDE, PACKAGE ENVISAGES:

( A) 1600 RIEL PER MONTH INCREASE IN SALARIES;  
( B) INCREASE IN MONTHLY FAMILY ALLOWANCE OF 150  
RIELS FOR WIVES, AND 100 RIELS PER HEAD FOR CHILDREN;

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( C ) SET- ASIDE OF 500 MILLION RIELS FOR COMBAT PAY  
PREMIUMS FOR FANK PERSONNEL ENGAGED IN OPERATIONS,  
WITH SYSTEM OF ADMINISTRATION TO BE DEFINED BY A  
JOINT CIVILIAN/ MILITARY COMMISSION; AND

( E ) SET- ASIDE 100 MILLION RIELS FOR INCREASES  
IN REMUNERATION OF EXECUTIVE PERSONNEL IN THE  
CIVILIAN MINISTRIES AND SCHOOL SYSTEM.

SALARY AND PER FAMILY ALLOWANCE INCREASES WOULD BE RETRO-  
ACTIVE TO JUNE 1, AND APPLIED TO ALL CIVILIAN AND MILITARY  
EMPLOYEES OF THE GOVERNMENT. INCREASE IN EXECUTIVE  
REMUNERATION WAS KHMER IDEA TO WHICH WE POSED NO OBJECTION;  
COMBAT PREMIUMS IS OUR IDEA, WITH WHICH GKR REPRESENTATIVES  
AGREED.

3. ON THE REVENUE SIDE, THE PACKAGE CONTAINS:

( A ) UPWARD ADJUSTMENT OF PETROLEUM PRICES TO REFLECT  
THE CURRENT EXCHANGE RATE AND INTERNATIONAL PRICES,  
WITH PERIODIC ADJUSTMENT ( PROBABLY EVERY THREE MONTHS)  
TO INCORPORATE FUTURE CHANGES IN THOSE TWO VARIABLES;

( B ) INCREASE OF ELECTRICITY PRICES BY 488 PERCENT,  
WITH PROVISION FOR PERIODIC ADJUSTMENTS ( PROBABLY  
EVERY SIX MONTHS) TO REFLECT CHANGES IN PETROLEUM  
PRICES;

( C ) INCREASE OF WATER PRICES BY APPROXIMATELY 100  
PERCENT TO REFLECT INCREASED OPERATING COSTS;

( D ) INCREASE OF RICE PRICES AT CONSUMPTION LEVEL  
FROM 2200 RIELS A 100 KILO SACK FOR NO. 1/50  
PERCENT BROKENS AND PL 480 TO 5000 RIELS; RICE  
NO. 2/50 PERCENT BROKENS WOULD GO FROM 2000 RIELS  
A SACK TO 4500 RIELS; THE PRICE OF RICE NO. 1/15  
PERCENT BROKENS AND NO. 1/25 PERCENT BROKENS WOULD  
BE ENTIRELY DECONTROLLED.

INCREASE IN RICE PRICES WOULD TAKE EFFECT IMMEDIATELY ON  
ANNOUNCEMENT OF PACKAGE; PETROLEUM, ELECTRICITY AND WATER  
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PRICES WOULD INCREASE ON JULY 1.

4. NET IMPACT OF PACKAGE ON BUDGET WOULD BE ON ORDER  
OF 1 BILLION RIELS NEGATIVE, WHICH EVERETS AND WE THINK  
WELL WITHIN ECONOMY'S CAPACITY OF ABSORPTION, PROVIDED  
THE EXCHANGE RATE CONTINUES TO DEPRECIATE ( WE HAVE,  
HOWEVER, LEFT DISCUSSION OF THIS SENSITIVE SUBJECT OUT

OF THE PRESENT BARGAINING).

5. EVERS IS PUTTING THE PACKAGE TO PAPER IN FORM OF A PROPOSAL AGREED BY ALL PARTICIPANTS IN THE MEETING, AND EXPECTS TO HAVE HIS NOTE IN THE HANDS OF THE MINISTER OF ECONOMY AND FINANCE TONIGHT. WE WILL CABLE EVERS' PAPER WHEN RECEIVED. I HAVE WRITTEN IN TAM TO URGE FAVORABLE CONSIDERATION AT THE CABINET MEETING TOMORROW MORNING, JUNE 15.

6. THERE APPEAR TO BE NO SERIOUS RESERVATIONS REMAINING AMONG THE ECONOMIC MINISTERS. WHAT IN TAM'S REACTION WILL BE, OR THAT OF THE HIGH COUNCIL, REMAINS TO BE SEEN. WE ARE TREATING THE PACKAGE AS AN INTEGRATED WHOLE, IN WHICH CHANGES CAN BE MADE ONLY ON A COMPENSATING BASIS. HOWEVER SOME SLIPPAGE IS TO BE EXPECTED AND COULD BE ACCOMMODATED, PROVIDED IT TAKES THE FORM OF A marginally HIGHER SALARY OR OF A marginally LOWER PRICE FOR RICE.

7. ON FEAR THE ECONOMIC MINISTERS EXPRESSED IS THAT ANNOUNCEMENT OF INCREASED RICE PRICES WILL LEAD TO PANIC BUYING. THIS QUITE PROBABLE. AS A PALLIATIVE, PER STATE 1 Q4025, AND UNLESS YOU INSTRUCT ME OTHERWISE, I PROPOSE TO TELL THE KHMER THAT WE ARE PREPARED TO DELIVER AN ADDITIONAL 10 THOUSAND TONS OF PL480 RICE IN JULY IF THEY ACCEPT THE PACKAGE AND THAT THEY MAY ANNOUNCE THIS DELIVERY SIMULTANEOUSLY WITH THE ANNOUNCEMENT OF THE PACKAGE.  
SWANK

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\*\*\* Current Handling Restrictions \*\*\* n/a

\*\*\* Current Classification \*\*\* CONFIDENTIAL

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** n/a  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 14 JUN 1973  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** garlanwa  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1973PHNOM05896  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GDS  
**Errors:** n/a  
**Film Number:** n/a  
**From:** PHNOM PENH  
**Handling Restrictions:** n/a  
**Image Path:**  
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**Legacy Key:** link1973/newtext/t19730619/aaaajaro.tel  
**Line Count:** 149  
**Locator:** TEXT ON-LINE  
**Office:** ACTION EA  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:**  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** garlanwa  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 20 NOV 2001  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <20-Nov-2001 by shawdg>; APPROVED <14-Dec-2001 by garlanwa>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** <DBA CORRECTED> jms 980206  
**Subject:** PROPOSED PLAN FOR INCREASING RICE PRICES AND SALARIES, AND ELIMINATING SUBSIDIES  
**TAGS:** EFIN, CB  
**To:** CINCPAC  
EA  
SECSTATE WASHDC  
WASHDC  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005